

## FISCAL NOTE

### SB 1492 - HB 1194

March 20, 2001

**SUMMARY OF BILL:** Requires the calculation of the prevailing wage rate to include fringe benefits for building construction. Rates are to be calculated on an annual basis instead of biennially.

#### ESTIMATED FISCAL IMPACT:

**Increase State Expenditures - Exceeds \$5,000,000**

**Increase Local Govt. Expenditures\* - Exceeds \$5,000,000**

Estimate assumes:

1. an increase in state expenditures as the result of requiring that fringe benefits be included in calculations of the prevailing wage rates for construction of buildings. Such rates serve as the minimum amount that can be paid by contractors and would therefore impact bids submitted for state and local government building construction projects. This estimate is based on the following assumptions:
  - according to the Department of Finance and Administration, the average annual building construction cost for the state is approximately \$155,000,000.
  - approximately 40% of that cost is labor, ( $\$155,000,000 \times 40\% = \$62,000,000$ ).
  - on average, fringe benefit cost is approximately 25% of labor cost, ( $\$62,000,000 \times 25\% = \$15,500,000$ ).
  - some individual contractor rates for wages plus benefits may exceed the minimum wage / benefit rate that would be calculated and published, while others may not pay fringe benefits at all. Estimate assumes that a significant number of contractors currently pay below the average fringe benefit rate. Estimate assumes that at a minimum, contractors are currently providing fringe benefits at 70% of the average fringe benefit cost. The increase in state expenditures for building contracts is estimated to be at least \$4,650,000, ( $\$15,500,000 \times 30\%$ ).
  - calculating the prevailing wage on an annual basis as opposed to biennially will accelerate increases in the prevailing wage rates, averaging 1.5% per year, ( $\$62,000,000 \times 1.5\% = \$930,000$ ) assuming an inflation rate of approximately 3% annually.
2. an increase in state expenditures in the Department of Labor and Workforce Development to determine prevailing wage rates annually instead of biennially.
3. a similar increase in local government expenditures for building construction.

*\*Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

#### CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director